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## APPENDIX A. BACKGROUND FOR PUBLIC WORKS INFRASTRUCTURE AND DEVELOPMENT PROGRAMS

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This appendix provides background on the public works infrastructure and development programs discussed in Chapter IV. The treatment of infrastructure programs is less extensive than the background material on community and economic development, because detailed information is available in previous CBO studies, including Public Works Infrastructure: Policy Considerations for the 1980s (April 1983).

### HIGHWAYS

Federal highway programs are administered by two agencies within the Department of Transportation--the Federal Highway Administration (FHWA) and the National Highway Traffic Safety Administration (NHTSA) (see Table A-1). The most important of these programs support the Federal-Aid Highway System, which has grown from 169,000 miles and 5 percent of the nation's roads in 1923 to 820,000 miles and more than 20 percent of the route-miles at present. In 1983, roughly 85 percent (\$11.4 billion) of federal highway funding was allocated to programs for this system, including Interstate, Primary, Secondary (rural collector), and Urban System roads and related bridges. The remaining \$2.1 billion serves a wide variety of purposes, ranging from regional development to safety-related grants, some of which are available for the Federal-Aid System as well.

Since the modern highway program began in 1916, federal highway spending has passed through several cycles. <sup>1/</sup> A milestone was reached in 1956, when the Congress created the Highway Trust Fund to provide a stable means of financing construction of the Interstate Highway System. Federal user fees were increased, with the most important tax--that on motor fuels--going from 1.5 cents per gallon in 1956 to 3 cents in 1957 and to 4 cents in 1959. In recognition of their importance for national growth, the

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1. For more details, see Congressional Budget Office, Highway Assistance Programs: A Historical Perspective (February 1978); The Interstate Highway System: Issues and Options (June 1982); and Financial Options for the Highway Trust Fund (December 1982).

TABLE A-1. FEDERAL FUNDING FOR HIGHWAYS, 1982 AND 1983  
(In millions of dollars of budget authority)

Program	1982	1983
Federal-Aid Highways		
Interstate construction	3,100	4,510
Interstate 4R <u>a/</u>	800	1,950
Primary System	1,500	1,890
Secondary System	400	650
Urban System	800	800
Bridges	900	1,600
Other <u>b/</u>	779	1,008
Total	8,279	12,408
Interstate Substitutions	400	775 <u>c/</u>
Safety Grants <u>d/</u>	133	153
Appalachian Development Highway System <u>e/</u>	108	100
Other <u>f/</u>	<u>20</u>	<u>36</u>
Grand Total	8,940	13,472

SOURCE: Congressional Budget Office.

- a. Resurfacing, Restoration, Rehabilitation, and Reconstruction.
- b. Includes emergency relief, safety, regional development, and other special programs.
- c. \$518 million in Highway Trust Fund monies and \$257 in general fund appropriations.
- d. Includes safety grants distributed by NHTSA, as well as FHWA safety grants that are not part of the Federal-Aid program.
- e. Administered by the Appalachian Regional Commission.
- f. Includes access highways to public recreation areas, highway widening demonstration, and other special programs.

Interstate routes became eligible for 90 percent federal financing, rather than the 50 percent federal support that the other Federal-Aid roads received. In 1974, the federal matching share for non-Interstate projects was increased from 50 percent to 70 percent, and four years later was raised to 75 percent for most programs. Because state and local governments spend more than required to match federal dollars, federal funds account today for about half of the spending by all levels of government for construction and major repair of the Federal-Aid System.

Most federal highway grant monies are distributed to the states on a formula basis. Formulas vary significantly according to program. For example, the Interstate apportionment is based on a state's share of the cost to complete the entire Interstate System; the Interstate 4R (Resurfacing, Restoration, Rehabilitation, and Reconstruction) formula is based on need as measured by highway age; and apportionment for Primary and Secondary System funds rests on a state's area, rural population, and mileage of rural and intercity mail routes, relative to those of the nation as a whole.

The federal share of overall highway spending has averaged about 30 percent for the last 25 years. <sup>2/</sup> State governments now supply about half the spending, with cities, counties, and other local governments providing the remaining 20 percent. Most state and local spending goes for roads that are not included in any of the various federal systems, for the more locally oriented federal roads (mainly the Secondary and Urban systems), and for routine maintenance on all road systems.

Public spending on highways peaked in 1969 at close to \$50 billion (expressed in 1982 dollars). In 1982, all three levels of government together spent about \$37 billion on highways, of which about half represents capital spending for new construction and major repair work. In terms of purchasing power, this level of spending is equivalent to that of the late 1950s, shortly after the start of the federal Highway Trust Fund.

The bulk of government spending on highways is financed by taxes on highway users. The most important of these are the taxes on motor fuel--now nine cents a gallon at the federal level under the 1982 legislation, and an average of about ten cents a gallon at the state level. About

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2. Unless states increase their spending as well, the major jump in federal spending called for by the Surface Transportation Assistance Act of 1982 may cause the first major shift since the late 1950s. This legislation raised the federal tax on motor fuels from four cents to nine cents per gallon, with one penny of the five-cent increase dedicated to public transit.

95 percent of federal highway spending is financed by users, and approximately 60 percent of state and local spending also comes directly from users.

## PUBLIC TRANSIT

The federal government's mass transit program, run by the Department of Transportation's Urban Mass Transportation Administration (UMTA), provides capital and operating assistance grants to local governments, with transit operators largely responsible for the selection and management of projects. Of the \$4.3 billion in federal funding authorized in 1983, 80 percent (\$3.4 billion) is for transit capital programs, including new bus purchases and bus maintenance facilities, modernization and extensions of existing rail transit facilities, and construction of new rail systems (see Table A-2). The remaining \$0.9 billion in federal assistance is intended to help cover the operating deficits of public transit authorities.

Federal funding of mass transit began on a small scale in the early 1960s, mainly to enable localities to purchase failing private bus lines and upgrade equipment. Early in this century, mass transit was dominated by private firms that operated as profitable businesses. With the proliferation of private automobiles after World War II, however, urban populations and employment, which had once been concentrated in city centers, became more dispersed. As a result, transit ridership declined by about 65 percent between 1945 and 1965, and many privately owned transit companies failed. By the early 1960s, the physical deterioration resulting from deferred maintenance had reached crisis proportions in most of the remaining private systems. <sup>3/</sup>

During the 1970s, federal transit aid grew at a 40 percent annual rate--faster than any other transportation program. In the early 1970s, the capital program expanded dramatically, permitting greater use of funds for both existing and new rail systems. Federal funding for approved capital grants climbed from \$174 million in 1965 to \$2.9 billion in 1981 (in 1982 dollars). In many cities, fares were held down to encourage ridership; but, as systems expanded, transit labor and other costs rose dramatically. As a result, operating deficits grew so large that most systems came to rely on the fare box for less than half their operating costs. In 1975, as this burden increased, operating subsidies were added to the federal aid program, peaking in 1981 at \$1.1 billion (in 1982 dollars). More recently, the Surface

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3. George W. Hilton, Federal Transit Subsidies (American Enterprise Institute, 1974).

TABLE A-2. FEDERAL FUNDING FOR PUBLIC TRANSIT, 1982 AND 1983  
(In millions of dollars of budget authority)

Program	1982	1983	Typical Projects Funded
UMTA Discretionary Grants (capital)	531	500	Bus fleet and service expansion
	880	840	Rail modernization and extensions
	195	206	New rail systems
	91	60	Other <u>a/</u>
Total	<u>1,697</u>	<u>1,606</u>	
UMTA Formula Grants	330	325	Bus replacement
	1,036	875	Operating assistance
	69	69	Small urban and rural (capital and operating) <u>b/</u>
	--	779	Trust Fund (capital) <u>c/</u>
Total	<u>1,435</u>	<u>2,048</u>	
Interstate Substitutions <u>d/</u>	560	365	Rail system extensions, new rail construction, bus acquisition
Washington Metro	<u>--</u>	<u>240</u>	New construction
Grand Total <u>e/</u>	3,692	4,259	

SOURCE: Congressional Budget Office.

- a. Includes funding for privately provided public transit service for the elderly and handicapped, and the Urban Initiatives program supporting intermodal transfer and joint development projects. Urban Initiatives was discontinued in 1982.

(Continued)

TABLE A-2. (Continued)

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- b. Urban populations below 50,000. These areas will also receive \$23 million of the \$779 million in Trust Fund revenues being distributed by formula in 1983.
  - c. Trust Fund receipts from one penny of the federal motor fuels tax will be distributed by formula only in 1983. Beginning in 1984, they will be distributed as discretionary capital grants, at the discretion of the UMTA Administrator.
  - d. Transit capital projects that are substituted for withdrawn segments of the Interstate Highway System, but subject to appropriations and financed out of the general fund rather than the Highway Trust Fund.
  - e. Excludes transit capital projects financed out of the Highway Trust Fund's Urban Systems program.
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Transportation Assistance Act of 1982 limited federal operating assistance to \$0.9 billion a year through 1986.

Throughout its history, the federal program of transit capital assistance has focused on big cities. From 1965 to 1976, six large cities received two-thirds of federal capital funding commitments, and 10 urban areas together accounted for four-fifths.<sup>4/</sup> Even so, the very largest cities have not received funds in proportion to their shares of the nation's transit riders. This reflects an apparent desire to encourage transit growth elsewhere in the country and a belief that the largest cities may be more willing and able to finance transit on their own.

The federal share of total capital spending by all levels of government for mass transit has been about 75 percent, with state and local governments providing the remainder of the funding. Federal capital grants available through UMTA totaled \$2.6 billion in 1982. At least \$0.6 billion was provided by state and local governments to meet the 20 percent local

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4. See Consad Research Corporation, A Study of Public Works Investment in the United States, prepared for U.S. Department of Commerce (April 1980), vol. III, pp. 52-53. In order of decreasing size of commitments, recipients include the Tri-State area constituting New York City and environs, Boston, Chicago, Atlanta, San Francisco-Oakland, Washington, D. C., Philadelphia, Baltimore, Seattle, and Pittsburgh.

matching requirements. In addition, some large cities--notably New York--financed major investments with their own monies. The federal share of transit operating costs nationwide is about 13 percent, but is less than this in large cities.

With passage of the Surface Transportation Assistance Act of 1982, the transit industry now has a dedicated revenue source--one penny of the federal tax on motor fuels--amounting to an estimated \$1.1 billion a year. For 1984 through 1986, these revenues will fund transit capital grants, which are distributed at the discretion of the UMTA Administrator. The new act reduced the federal matching share on these grants from 80 percent to 75 percent. Nevertheless, after receiving federal and state contributions, a typical city may pay less than 10 percent of the costs of a project. The federal matching share on operating assistance grants remains at 50 percent.

The Surface Transportation Act also created a modified transit block grant program, to go into effect in fiscal year 1984. It will replace UMTA's existing four-tiered urban formula grant program, which provides funds primarily for operating assistance, as well as for routine capital investments such as bus replacement. The new block grant will be available for capital or operating purposes, with funds allocated to urban areas according to a formula based on population, population density, and vehicle miles of operation.

## AIRPORTS

The Department of Transportation's Federal Aviation Administration (FAA) manages the user-supported Airport and Airway Improvement Program, under which the federal government offers airport authorities matching grants of 50 percent to 94 percent for construction and rehabilitation of airport facilities. In 1983, \$800 million in federal spending was authorized (see Table A-3), but the Congress has imposed an obligation ceiling of \$750 million.

Recognizing that an adequate system of airports was a matter of national concern, the Congress authorized the Federal-Aid Airport program in 1946. Federal capital spending on airports is financed by user fees, chiefly levied as taxes on domestic airline tickets and general aviation fuel. These taxes, which originated in 1933 and 1941, were not formally linked to expenditures until 1970, when the Airport and Airways Revenue Act established the Airport and Airways Trust Fund. Today, this fund is supported mainly by an 8 percent tax on domestic passenger tickets and a

TABLE A-3. FEDERAL FUNDING FOR AIRPORTS, 1982 AND 1983  
(In millions of dollars of budget authority)

Program	1982	1983
Airport and Airway Improvement Program		
Grants-in-aid for airports	476	800
Metropolitan Washington Airports		
Operation and maintenance	30	32
Construction	<u>17</u>	<u>11</u>
Total	523	843

SOURCE: Congressional Budget Office.

14-cents-per-gallon tax on general aviation jet fuel (12 cents for gasoline). <sup>5/</sup> Collections from user fees are distributed to major airports in the form of matching grants determined by a formula based on passenger volume. Collections are distributed to smaller airports in the form of block grants to states.

Since 1960, cumulative investment in the nation's airports by all levels of government has totaled \$25.1 billion (in 1982 dollars), of which the federal share accounts for \$9 billion, or just above one-third. The year-to-year federal share of total airport investment has fluctuated widely, however, owing largely to substantial swings in the mix and total volume of airport investment. <sup>6/</sup> The level of federal airport spending remained relatively stable throughout the 1970s, at about \$600 million a year (in 1982 dollars). Today, the federal Airport and Airway Improvement Program

5. The general aviation user fees were increased from 7 cents per gallon under the Airport and Airways Revenue Act of 1970 to 14 cents per gallon for general aviation jet fuel and 12 cents for gasoline under the Airport and Airway Improvement Act of 1982.
6. For further details, see Congressional Budget Office, Public Works Infrastructure: Policy Considerations for the 1980s, Chapter VII.

channels funds to the nation's 780 commercial airports and 2,379 general aviation facilities, including the 155 "reliever" airports, whose location enables them to help reduce congestion at major commercial airports. The federal share of capital spending averages about 20 percent for construction at commercial airports, and around 85 percent at general aviation airports.

## WATER RESOURCES

While about 25 federal agencies have some authority for water resources development, federal water resources programs for financing, constructing, and operating water resources projects are administered primarily by four agencies: the U.S. Army Corps of Engineers, the Department of the Interior's Bureau of Reclamation, the Department of Agriculture's Soil Conservation Service, and the Tennessee Valley Authority (TVA). Some 20 federal acts, dating back over a century, have formed the federal water resources program for these four agencies, including development for flood control, drainage, irrigation, municipal and industrial water supply, fish and wildlife conservation, navigation, hydroelectric power, and area redevelopment. The Corps of Engineers has built and maintained inland waterways and ports under various rivers and harbors acts since 1826. All four major federal water agencies finance, build, and sometimes operate dams for a wide range of purposes. Federal spending amounting to \$4.3 billion in direct expenditures was authorized in fiscal year 1983 to support these diverse water resources programs (see Table A-4).

For most types of projects, the federal government finances all capital costs but ultimately pays for somewhat less because of reimbursements from users and other nonfederal sources. Cost-sharing for joint federal/state water resources projects varies according to the type of project and lead federal agency.<sup>7/</sup> For the average inland waterway project, the federal government pays about 94 percent of combined capital and operating costs over the project's life. The federal government pays about 84 percent of the average commercial harbor project. The average federal share of a multipurpose dam project is about 70 percent of combined costs, but portions may vary from a low of about 36 percent for a single-purpose hydroelectric project to a high of about 89 percent for an irrigation project. States or localities generally contribute land, easements, or rights-of-way; users sometimes repay part of the initial capital cost and, more often, pay operating and maintenance costs. Together, state and user contributions cover the nonfederal share.

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7. For further details, see Congressional Budget Office, Current Cost-Sharing and Financing Policies for Federal and State Water Resources Development (July 1983).

TABLE A-4. FEDERAL FUNDING FOR WATER RESOURCES, 1982 AND 1983 (In millions of dollars of budget authority)

Program	1982	1983
Corps of Engineers		
Construction	1,430	1,421
General investigations	137	129
Operation and maintenance	1,025	1,023
Mississippi River and tributaries	256	263
Supplemental funding <u>a/</u>	--	389
Total	<u>2,848</u>	<u>3,225</u>
Bureau of Reclamation		
Construction	549	580
General investigations	41	39
Operation and maintenance	119	122
Supplemental funding <u>a/</u>	--	116
Total	<u>709</u>	<u>857</u>
Soil Conservation Service		
River basin surveys and investigations	16	16
Watershed planning	9	9
Watershed and flood prevention operations	194	155
Total	<u>219</u>	<u>180</u>
Tennessee Valley Authority		
Water resources capital investment	19	40
Water resources operating expenses	20	23
Total	<u>39</u>	<u>63</u>
Grand Total	3,815	4,325

SOURCE: Congressional Budget Office.

a. Enacted in the 1983 Emergency Jobs Appropriation Act (P.L. 98-8).

In the early 1960s, annual federal spending for construction, operation, and maintenance of water resources projects averaged between \$5.5 billion and \$6.5 billion (in 1982 dollars). Since peaking in 1965, federal spending has generally declined, reaching a low point of \$3.8 billion in 1982. Since the late 1970s, federal capital expenditures have declined even more rapidly. The Corps of Engineers' combined capital outlays for flood control, multi-purpose dams, and navigation, for example, fell from about \$2.1 billion to \$1.2 billion (in 1982 dollars) between 1977 and 1983. The primary reason for such a steep decrease, besides budgetary pressures, has been the inability of the Congress and the Executive Branch to reach an accord over the proper role of the federal government in making water resources investments. As a result, no new federal water resources projects have been authorized since 1976. Overall, water resources expenditures appear to be shifting away from massive new construction projects and toward rehabilitation of existing public works and more efficient management.

### WASTEWATER TREATMENT

Federal programs supporting the construction and upgrading of wastewater treatment facilities are administered by three agencies--the Environmental Protection Agency (EPA), the Farmers Home Administration (FmHA) in the Department of Agriculture, and the Economic Development Administration (EDA) in the Department of Commerce. In 1983, about \$2.5 billion in federal grant assistance was authorized for wastewater treatment programs (see Table A-5). In addition, Community Development Block Grant funds, distributed by the Department of Housing and Urban Development, can be used for wastewater treatment facilities.

Federal involvement in funding wastewater treatment facilities began in 1957 under the U. S. Public Health Service (PHS). Between 1960 and 1966, only about \$200 million a year (in 1982 dollars) in federal assistance went for wastewater treatment grants to states. In 1966, the PHS wastewater treatment grants program was transferred to the Department of the Interior, and in 1970--when improving water quality became a national priority because of rapidly degrading waterways and heightened public awareness--it became the responsibility of the then-new Environmental Protection Agency.

In recent years, by far the most important wastewater treatment program has been the EPA's wastewater facilities grants program, accounting for about 85 percent of all federal wastewater spending since 1970. <sup>8/</sup> The EPA's outlays for wastewater facilities grants more than

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8. These grants were authorized under section 201 of the Federal Water Pollution Control Act of 1972 (P.L. 92-500).

TABLE A-5. FEDERAL FUNDING FOR WASTEWATER TREATMENT, 1982  
AND 1983 (In millions of dollars of budget authority)

Program	1982	1983
Environmental Protection Agency Construction grants for waste- water treatment	2,400	2,430
Farmers Home Administration Rural waste disposal grants	38 <u>a</u> /	90 <u>a</u> /
Economic Development Administration Grants for public works and development facilities	<u>6</u>	<u>6</u> <u>b</u> /
Total <u>c</u> /	2,444	2,526

SOURCE: Congressional Budget Office.

- a. The FmHA provides rural water and waste disposal grants and loans to rural communities. In 1982, \$125 million in grants and \$375 million in loans were authorized. \$300 million in grants and \$450 million in loans have been authorized in 1983. Only a portion of these funds goes for construction and upgrading of wastewater treatment facilities. Based on recent spending levels, it is assumed here that, for 1982 and 1983, grants used for wastewater treatment represent about 30 percent of total rural water and waste disposal grant authorizations.
- b. Estimate based on 1982 spending level.
- c. Excludes federal funding for wastewater treatment available under the Department of Housing and Urban Development's Community Development Block Grant program.

doubled between 1971 and 1974, from \$1.1 billion to about \$2.9 billion (in 1982 dollars). Between 1975 and 1982, the EPA's outlays for wastewater treatment facilities grants ranged from \$3 billion to \$5 billion a year (in 1982 dollars). Under this program, the EPA now pays 75 percent of the capital costs of constructing or improving conventional, publicly owned

treatment works, and 85 percent for so-called "innovative" technologies. 9/ Beginning with fiscal year 1985, the federal matching share under this program will be reduced to 55 percent of capital costs for conventional systems and 75 percent for innovative systems. Project grants are available to states according to an allocation formula based on population and the EPA's assessment of needs. Local recipients of EPA grants are responsible for paying all operation and maintenance costs.

## COMMUNITY DEVELOPMENT

A longstanding priority of local governments, community development generally encompasses those activities necessary to support and improve daily living conditions in cities and smaller communities, such as developing and maintaining streets and sewers, providing parks and recreational facilities, and constructing or improving municipal buildings. Federal community development efforts are centered in the Community Development Block Grant program administered by the Department of Housing and Urban Development. In addition, much of the federal assistance provided through infrastructure and some social service programs helps to meet local community development needs, even though these programs are not always included in the context of community development efforts.

Federal involvement in community development dates to 1949. Early federal efforts were motivated by a desire to eliminate slums and improve conditions in urban areas. Although prohibited by court decisions from directly exercising eminent domain to raze and rebuild decaying neighborhoods, the federal government funded local governments to undertake these activities through a variety of urban renewal programs of the 1950s and 1960s.

Over time, federal regulations governing local government participation in community renewal programs became increasingly extensive and restrictive, which led to reactions against the federal role in local affairs. At issue were whether the federal government appropriately had a role in addressing community development issues and, if so, what form its

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9. Under provisions of the Clean Water Act, both "innovative" (new and unproven) and "alternative" (proven in practice) technologies qualify for the higher federal share. These technologies may be more cost-effective than conventional collection and treatment systems, particularly for small or rural communities. For example, alternative treatment processes include land application of wastewater or processes that reclaim or reuse water.

TABLE A-6. FEDERAL FUNDING FOR THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, 1982 AND 1983 (In millions of dollars of budget authority)

	1982	1983
Entitlement Funding for Large Cities and Urban Counties	2,380	3,149
Small Cities Funding	1,020	1,243
Secretary's Fund	<u>56</u>	<u>64</u>
Total	3,456	4,456

SOURCE: Congressional Budget Office.

involvement should take. The questions were extensively debated during the Nixon Administration and resulted in the 1974 consolidation of then-current community development programs into the Community Development Block Grant (CDBG) program. <sup>10/</sup> The goal of consolidation was to return to local governments the responsibility for setting priorities and for developing and implementing strategies to achieve these goals. The federal role was limited to establishing broad guidelines to govern local decisions and to financing the activities undertaken.

Nearly \$27 billion was spent for the CDBG program between 1975 and 1982, with an additional \$4.5 billion allocated for 1983 including \$1.0 billion included in the supplemental jobs appropriation bill (see Table A-6). The CDBG program has two primary components: 70 percent of annual appropriations are allocated for annual, formula-based grants to large cities and urban counties to implement locally designed development programs, while the remaining funds are used for project grants awarded to smaller communities to carry out specific activities. <sup>11/</sup>

10. The programs consolidated included urban renewal, model cities, water and sewer facilities grants, neighborhood facilities grants, public facilities loans, open space land grants, and rehabilitation loans.
11. The division of funds between large communities and smaller ones is made after subtracting out a small amount for the Secretary of HUD's discretionary fund, which is used to make grants for special projects.

## Formula-Based Entitlement Grants

Cities that have populations over 50,000 or that are designated as the central city of a standard metropolitan statistical area and all urban counties <sup>12/</sup> are entitled to apply for CDBG assistance and, if their applications meet statutory requirements, to receive formula-based grants. In 1982, 732 communities were eligible for entitlement grants, up from 594 in 1975. Of the total, 719 applied and were awarded grants, 12 did not apply, and 1 applied and was not awarded funds because of failure to meet application requirements.

Funding Levels. Prior to 1983, the peak funding year for community development entitlement grants was 1980, when spending reached \$2.7 billion. Funding fell in each of the next two years, both because total funds for CDBG declined and because the share of the total allotted to entitlement jurisdictions was reduced in 1982 from 80 percent to 70 percent. Current funding for entitlement grants is set at \$3.1 billion, as a result of higher program funding and an increased share (77 percent) of the supplemental jobs bill appropriation being allocated to entitlement jurisdictions.

Allocation of Funds. CDBG funds are distributed by formula among eligible localities. Two formulas are used, and a jurisdiction receives the higher of the two amounts. One formula, which dates to the establishment of the program, considers a community's total population, population in poverty, and number of overcrowded housing units. The second, added in 1977, includes the number of housing units in a jurisdiction built before 1940, its growth in population relative to that of all entitlement jurisdictions, and its population in poverty. In general, the earlier formula is sensitive to the needs of low-income communities, while the second is responsive to the concerns of jurisdictions with falling population levels and shifting economic bases.

Eligible Activities. Entitlement jurisdictions may use CDBG allocations for a wide range of development activities. The enabling legislation specifies that funds must be used to provide benefits to low- and

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12. Urban counties are defined as those that have populations either of 200,000 or more (not counting cities within a county's borders that are independently eligible for CDBG entitlement grants) or of 100,000 or more and a population density of at least 5,000 people per square mile and contain no incorporated places within their boundaries. Additionally, counties must have authorization under state law to carry out essential community development and housing assistance activities to qualify.

moderate-income households, to eliminate slums and blight, or to meet urgent community needs. Under the Carter Administration, regulations required that a majority of program benefits should accrue to low- and moderate-income households, and applications showing that less than 75 percent of spending aided such households were subject to special review. Under the Reagan Administration, this additional emphasis on aid to low- and moderate-income households was dropped. Bills recently reported by the House and Senate Banking Committees (H.R. 1 and S. 1338) would, however, add more specific guidance on the share of program benefits that should be realized by lower-income households.

Within this general framework, eligible activities include: the acquisition, construction, or improvement of community facilities (such as centers for the handicapped or elderly, playgrounds, and recreational facilities); public works projects (street and sewer repairs, development or improvement of water systems or storm and drainage facilities, and construction or improvement of parking facilities); housing code enforcement and assistance to remedy violations; and economic development assistance, including direct aid to for-profit firms. Up to 10 percent of CDBG funds may be used for the direct provision of social services in such areas as prevention of drug abuse, education, employment, and energy conservation.

#### Grants to Small Cities

In addition to entitlement grants to large cities and urban counties, the CDBG program also provides project grants to smaller communities. All general-purpose governments that do not qualify for funds under the entitlement portion are eligible to apply for small cities aid, and the same activities eligible for funding under the entitlement portion of the CDBG program may be funded under the small cities component.

Funding for the small cities component of the CDBG program rose from \$259 million in 1975--when many smaller communities instead received assistance under "hold harmless" provisions that maintained through 1979 their shares of earlier, categorical programs--to \$1.0 billion in 1982. With passage of the 1983 Emergency Jobs Appropriation Act, funding has risen to \$1.2 billion in 1983.

CDBG assistance to small communities is administered jointly by HUD and by state governments. Funds are allocated among state areas on essentially the same basis as they are divided among entitlement

jurisdictions, <sup>13/</sup> and communities apply for grants to fund proposed projects. Prior to 1982, HUD awarded grants within states, but the 1981 budget reconciliation act (P.L. 97-35) allowed state governments to participate by distributing the funds within a state. In 1982, 37 states elected to do so, and in 1983 that number has risen to 49. HUD continues to distribute a state's funds when the state government has declined to participate.

To administer community development grants to small communities, a state government must develop a means of allocating funds among localities that is approved by the Secretary of HUD and must spend an amount equal to 10 percent of the state's block grant on community development activities in small communities. The strategies selected by states have varied widely, but a general trend has been to increase the number of grants made, relative to HUD's allocation practices, with the result that average grant size has decreased. In addition, the types of projects receiving funds have shifted under state government administration from housing rehabilitation, which received 43 percent of grants made in 1981 and just 12 percent in 1982, to public facilities, which received 30 percent of 1981 grants and 47 percent of those made in 1982, and to economic development, which grew from 4 percent in 1981 to 17 percent in 1982.

## ECONOMIC DEVELOPMENT

The federal government has historically supported development of economic resources through programs to develop highways and waterways, through its management of natural resources, and through regulatory and tax policies. It has also promoted the development of areas that lagged behind the rest of the nation in their development, notably the Tennessee Valley in the 1930s and Appalachia in the 1960s.

In addition, since the early 1960s, it has also attempted to address the problems of areas that lack well-developed economic bases or that are experiencing disruptive shifts in their economies. Current economic development programs assist such places to develop or sustain economic activity, with the primary sources of aid being the Economic Development Administration within the Department of Commerce and the Urban Development Action Grant program administered by the Department of Housing and Urban Development.

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13. The major difference between the formulas used to allocate funds among entitled jurisdictions and the formulas used to divide funds among state areas for smaller communities is that in the 1977 formula the growth lag variable is replaced by a state's population.